

## Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 216320  
ORIGIN SS-15

INFO OCT-01 EA-10 ISO-00 SP-02 USIA-06 AID-05 EB-08  
NSC-05 TRSE-00 STR-04 OMB-01 CEA-01 L-03 H-01  
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 PA-01 PRS-01 /084 R

DRAFTED BY E:JFWILSON:CB  
APPROVED BY E - MR. JOHNSTON  
EA/J - MR. COCHRAN

-----046459 101650Z /45

R 091907Z SEP 77  
FM SECSTATE WASHDC  
TO AMEMBASSY MANILA

LIMITED OFFICIAL USE STATE 216320

E.O. 11652:

TAGS:EFIN, RP

SUBJECT:ANALYSIS OF SEPT. 3 JAPANESE STIMULUS PACKAGE

REF: (A) TOKYO 13556, (B) TOKYO 13642

MANILA FOR UNDERSECRETARY COOPER FROM STANLEY BLACK

1. ON SEPT. 3 THE JAPANESE CABINET APPROVED PRIME MINISTER  
FAKUDA'S YEN 2 TRILLION ECONOMIC STIMULUS PACKAGE. THE BULK  
OF PLANNED EXPENDITURES WILL BE ON PUBLIC WORKS AND HOUSING.  
DETAILS OF THE PACKAGE ARE SUMMARIZED IN REF. B, BUT  
CERTAIN ELEMENTS REMAIN TO BE FILLED IN.

2. TO ITS CREDIT, THE JAPANESE GOVERNMENT IS TAKING STEPS  
IT SAYS ARE MAINLY TO ASSURE HITTING THE FY 1977 GROWTH  
TARGET OF 6.7 PER CENT. WHILE THE SIZE OF THE ANNOUNCED  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 216320

PROGRAM COMES TO SOMEWHAT OVER 1 PER CENT OF JAPANESE  
GNP AND IMPLEMENTATION SHOULD LEAD TO MULTIPLIER EFFECTS,  
ITS IMPACT WITHIN FY 1977 WILL BE LESS FOR SEVERAL REASONS.  
(1) THE NOMINAL MAGNITUDE OF THE PROGRAM IS SOMEWHAT OVER-  
STATED, BECAUSE SOME OF THE PROGRAM IS TO BE FINANCED BY  
SIMULTANEOUS EXPENDITURE CUTS IN EXISTING PROGRAMS. AS  
INDICATED IN REF. B, THESE CUTS COME TO ABOUT YEN 300

BILLION, OF WHICH YEN 200 BILLION WILL BE CUT FROM GENERAL

ACCOUNT OUTLAYS AND YEN 100 BILLION WILL BE TAKEN OUT OF THE FISCAL LOAN AND INVESTMENT PROGRAM. (2) ONLY A PORTION OF THE PLANNED HOUSING EXPENDITURES ARE ACTUALLY TO BE INCORPORATED IN THE SUPPLEMENTAL BUDGET FOR FY 1977, THE REMAINDER BEING ALLOCATED TO FY 1978. ADJUSTING FOR THESE FACTORS, THE NET SIZE OF SUPPLEMENTAL EXPENDITURES IN FY 1977 MAY BE ABOUT YEN 1.4-1.5 TRILLION. SINCE MUCH OF THE PROGRAM CONSISTS OF FUNDS FOR PUBLIC CONSTRUCTION, HOUSING CONSTRUCTION, OR BUSINESS FIXED INVESTMENT, WE DO NOT EXPECT ALL OF IT TO ADD DIRECTLY TO GNP IN FY 1977. ASSUMING THAT PERHAPS ONE-HALF OF THE SUPPLEMENTAL WILL ADD TO GNP IN THE CURRENT FISCAL YEAR, AND ALLOWING FOR SOME LIMITED MULTIPLIER EFFECT, WE ESTIMATE A NET STIMULUS FROM THE SUPPLEMENTARY BUDGET OF ABOUT 0.6 PER CENT IN FY 1977. ON CURRENT PROJECTIONS OF JAPANESE GROWTH, THIS MIGHT RAISE FY 1977 GROWTH TO THE VICINITY OF THE 6.7 PER CENT TARGET LEVEL.

3. IN TERMS OF SUMMIT TARGET COMMITMENTS FOR REAL ECONOMIC GROWTH, THIS PROGRAM MAY BE VIEWED AS SATISFACTORY. BUT THE IMPACT ON THE JAPANESE CURRENT ACCOUNT SURPLUS APPEARS TO BE DEFICIENT. THE JAPANESE ARE WELL ON THE ROAD TO A SURPLUS OF \$7-8 BILLION IN 1977. FUKUDA'S STATEMENT (REF A) IS VERY CAUTIOUS ON PROJECTING A TURNAROUND IN THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 216320

EXTERNAL SURPLUS: "THROUGH THESE EFFORTS..., I BELIEVE THAT THE SURPLUS IN THE BALANCE OF PAYMENTS WILL BE GRADUALLY DECREASED."

4. THIS IS NOT AT ALL EVIDENT. MOST OF THE PROGRAMMED EXPENDITURES ARE IN AREAS WHICH WOULD HAVE LITTLE IMPACT ON IMPORTS AND NO DISCERNIBLE EFFECT ON EXPORTS. ASIDE FROM THE HOUSING AND PUBLIC WORKS COMPONENTS, THERE ARE ALSO (UNSPECIFIED) MEASURES TO "ACCELERATE INVESTMENT IN THE ELECTRIC GENERATING INDUSTRY, PROMOTION OF LARGE-SIZE OVERSEAS INVESTMENTS, AND EASING OF CONSUMER CREDIT" (REF B), ALL SUBSUMED UNDER "PROGRAMS TO STIMULATE PRIVATE DEMAND." ONLY THE LAST OF THESE IS AIMED AT CONSUMER DEMAND AND, EVEN THEN, GIVEN JAPANESE SAVINGS RATES AND LOW PROPENSITY TO IMPORT CONSUMER GOODS, IT SHOULD HAVE LITTLE EFFECT. PROMOTION OF "OVERSEAS INVESTMENTS" SHOULD BE INTERPRETED AS A MEASURE TO INFLUENCE THE CAPITAL ACCOUNT, NOT THE CURRENT ACCOUNT, AND MIGHT EVEN LEAD TO FURTHER EXPORTS AS SUCH; INVESTMENT IS PUT IN PLACE.

5. UNDER "EXTERNAL MEASURES" THE PROGRAM MENTIONS ADDITIONAL OIL-STOCKPILING AND "ADVANCE IMPORTS OF SOME

ITEMS," IN ADDITION TO "A POSITIVE APPROACH TO THE MTN AND  
GENERAL ENCOURAGEMENT OF ECONOMIC COOPERATION." OIL-  
STOCKPILING WILL BENEFIT OPEC, NOT OTHER COUNTRIES IN

BALANCE OF PAYMENTS DIFFICULTIES. "ADVANCE IMPORTS" WOULD  
BE A TEMPORARY PALLIATIVE AND THE PHRASE ITSELF SUGGESTS  
THE USE OF ADMINISTRATIVE GUIDANCE. "ENCOURAGEMENT OF YEN  
BOND FLOTATIONS BY FOREIGNERS" IS A WELCOME SIGN OF GREATER  
FOREIGN ACCESS TO THE JAPANESE CAPITAL MARKET, BUT  
FOREIGNERS MAY NOT BE READY TO ASSUME LARGE AMOUNTS OF YEN-  
DENOMINATED LIABILITIES, GIVEN PROBABLE FURTHER YEN APPRE-  
CIATION.

6. OVERALL, THE PROGRAM WILL NOT DO MUCH TO REDUCE THE  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 216320

JAPANESE CURRENT SURPLUS. INDEED, GIVEN STRUCTURAL, AD-  
MINISTRATIVE, AND TRADITIONAL FACTORS WHICH IMPEDE FOREIGN  
ACCESS TO THE JAPANESE MARKET, THE GOJ MAY HAVE BEEN UN-  
CERTAIN HOW TO ADDRESS THE SPECIFIC ISSUE OF ITS BURGEON-  
ING EXTERNAL SURPLUS. THE PROGRAM MAKES IT LIKELY THAT  
FY 77 GROWTH WILL NOT HAVE TO COME FROM FURTHER GROWTH OF  
THE EXTERNAL SURPLUS. BUT THE LARGE SURPLUS WILL REMAIN.  
ONE POSSIBLE APPROACH IN TALKS WITH THE JAPANESE, THEREFORE  
, WOULD BE TO ACKNOWLEDGE THE RESTIMULATIVE EFFORTS EM-  
BODIED IN THE SEPTEMBER 3 PROGRAM, BUT TO FOCUS DISCUSSION  
BEYOND THE PROGRAM ONTO THE KEY ISSUE, PUSHING FOR AS MANY  
SPECIFICS AS THEY ARE ABLE OR WILLING TO PROVIDE ON HOW  
THEY INTEND TO RESTORE SOME SEMBLANCE OF EXTERNAL EQUILI-  
BRIUM.

VANCE

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 09-Sep-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977STATE216320  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** JFWILSON:CB  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770329-0114  
**Format:** TEL  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770979/aaaacpch.tel  
**Line Count:** 152  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** c8060e49-c288-dd11-92da-001cc4696bcc  
**Office:** ORIGIN SS  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 TOKYO 13556, 77 TOKYO 13642  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 24-Feb-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1324741  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ANALYSIS OF SEPT. 3 JAPANESE STIMULUS PACKAGE  
**TAGS:** EFIN, RP  
**To:** MANILA  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/c8060e49-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009